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**COMMUNICATION FROM THE COMMISSION
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

**Towards the full integration of co-operation with ACP countries
in the EU budget**

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1. EXECUTIVE SUMMARY

Enlargement with ten new Member States (MS) will make the year 2004 one of historical importance for the European Union. The Intergovernmental Conference on Treaty reform, due to start work in October 2003 on the basis of the proposals of the European Convention, will provide the EU with a Constitution bringing its role and its institutions in line with its new status. The Commission will have launched the debate on the financial framework after 2006, i.e. for the first full period of the enlarged EU. Co-operation with countries in Africa, the Caribbean and the Pacific (ACP) is also high on the 2004 agenda, the Convention recommending budgetisation of EU/ACP co-operation. Negotiations will start in 2004 on possible amendments of the ACP-EC Partnership Agreement (Cotonou Agreement). At the same time, the Community will have to determine the future level of resources to support financial co-operation with ACP countries after the expiry of the current financial protocol for the ninth European Development Fund (EDF). Although the two financial issues - the general financial framework and the successor to the ninth EDF - may appear to be rather technical, their political importance is very high and they are intrinsically linked with the role the enlarged EU will identify for itself in the future.

The Commission is of the opinion that, in this context, it is both politically desirable and opportune to normalise the financial framework for the Community's assistance to ACP countries and Overseas Countries and Territories (OCTs).¹ The change will end the system of successive EDFs and enable the financing of EU-ACP co-operation to be fully incorporated into the general budget system, i.e. into the annual EU budget and into its medium-term programming frame: the financial perspectives. The combination of upcoming events in 2004 gives the ideal opportunity to do so.

The EDF has been the main financing instrument since 1958 for the EC's co-operation with the ACP and OCTs. The EDF is of a particular nature: inter-governmental in its funding and managed by the Commission outside the general budget, but with the European Parliament (EP) granting the discharge. It has maintained a separate financial regulation and its own implementation arrangements over the years, differing from the ones applied to external aid financed from the general budget. Furthermore, the resources of the EDF have continued to originate from financial contributions from the Member States with a different cost-sharing formula from that of the general budget. The contributions had to be negotiated at each renewal of the Financial Protocols for a five-year duration.

However understandable this peculiar set-up may have been some 50 years ago, nowadays the advantages of a separate, specific fund have eroded. ACP countries and OCTs increasingly run the risk of being marginalised, mainly because they are detached from the mainstream discussions and priority-setting at the level of the European Union. The present situation is an anachronism: why should one single element (EDF) of one full Community policy (development co-operation) continue to be managed outside the general budget, outside full parliamentary participation and be based on specifically negotiated partition keys for Member States, other than those agreed for their contributions to all other Community expenditure?

¹ References made in this document to the ACP countries will include reference to the OCTs.

Budgetisation of the EDF has been discussed more than once in the past, the last time during negotiations preparing the ninth EDF. In spite of a positive reaction from most Member States, no final consensus could be reached at that stage. The Commission then declared that it would prepare a communication on the advantages and drawbacks of budgetisation².

The present document responds to that commitment. It notes that both from a policy angle and from a practical point of view, great opportunities present themselves through budgetisation:

- At the Barcelona Summit in March 2002, the Union made a promise to work towards harmonisation of (donor) procedures and practices and to come up with concrete results before 2004. Budgetisation would be a concrete step. Efficiency gains would be reached in recipient countries, which presently receive resources from the Community according to different rules. Unified procedures would also deliver significant advantages in terms of coherent management, rationalisation of comitology between the Commission and the Member States, and simplification of tasks for Commission staff, both at headquarters and in delegations, and would fit perfectly into the restructuring of the external relations sector that started in 2000.
- The effectiveness of Community aid to ACP countries would improve through budgetary discipline and more flexible reallocation mechanisms. Combining all development co-operation resources in the general budget would facilitate regional co-operation between ACP and non-ACP developing countries and make for greater synergy. It would increase the attention given to ACP countries in the EU development debate. Annual discussions on the budget by the Council and Parliament have become the main forum for debate on the substance of development policy, the political priorities of the Union and their resource implications. Budgetisation would bring co-operation with ACP countries more to the frontline and enhance its legitimacy through authorisation by the European Parliament. The ACP-EU Joint Parliamentary Assembly would gain additional influence through its members in the European Parliament.
- Funds would be available rapidly (after adoption of the necessary regulation(s) by the European Council and Parliament), without the need to wait for ratification of a financial protocol by 25 (or more) EU Member States and two thirds of the ACP Countries.
- Budgetisation provides an opportunity to modernise relations between the ACP and the EU, by shifting from an ad hoc financing system based partly on historical links towards a fully EU-financed system. It would avoid specific and difficult negotiations on EDF contributions every five years. A single system of burden sharing between Member States would exist, instead of having two separate mechanisms which will become all the more difficult to manage in an enlarged union with 25 Member States. In view of all the interests at stake, EDF-based discussions clearly run the risk of being marginalised.

In this context, the Commission has conducted its analysis with a view to preparing decision-makers for the important choices to be made in the coming months. The communication confirms that full budgetisation is expected to produce a positive change by establishing political and budgetary normality, as well as further simplification and harmonisation of procedures, without putting at risk the qualitative achievements of the 45-year-long co-operation with ACP states. The communication ends with a brief road map demonstrating that the agenda for fully

² Council of the European Union, Ref. 14084/99 of 14 December 1999.

incorporating ACP aid into the general budget from 2007/2008 onwards³ is feasible provided action is undertaken immediately.

2. THE CONTEXT

2.1. Aid effectiveness - an international agenda

During recent years, development policy has seen a new momentum, both at EU and at international level.

Several major conferences have taken place within the UN system, notably the Millennium Summit in September 2000, the “International Financing for Development Conference” in Monterrey and the “World Summit on Sustainable Development” in Johannesburg, which were held in 2002. These have resulted in a shared set of norms, recognised principles and values, and a global agenda. The essential objectives of development policy are set out in the “Millennium Development Goals” (MDGs), the central aim of which is to eradicate poverty. The main principles and good practice of development co-operation, such as “partnership” and “ownership” of recipient countries in their own development process, are now common international language. The Monterrey Consensus further stressed the need for enhanced effectiveness of Official Development Aid (ODA), inter alia by reducing transaction costs, harmonising donor procedures, untying aid and applying the most suitable aid delivery mechanisms adapted to the needs of developing countries. The need for resource predictability was also recognised.

In this overall context, the European Union has committed itself⁴ to reducing transaction costs: concrete steps on co-ordination of policies and harmonisation of procedures are to be taken before 2004, both at EC and at Member State level, in line with internationally-agreed best practices.

Full budgetisation of co-operation with ACP countries and harmonisation of procedures vis-à-vis all developing countries are the most obvious concrete steps in this direction, given the fact that ACP countries are currently confronted with different systems and procedures in their development programmes supported by the Community.

2.2. EU Co-operation: Budget plus EDF

At present, the development assistance provided by the European Union is administered through: (1) the EU budget, (2) the European Development Fund, (3) EU Member States’ programmes. Part of this overall assistance is channelled through international agencies (World Bank, UN, etc.). In addition, the EIB has been an important source of capital for developing countries.

Through the channels mentioned above, the EU as a whole provides half of global development assistance (around USD 29 billion in 2002) to the countries reporting to the OECD-DAC (see Annex 1 - Table 1). Approximately one fifth of this aid is managed by the Commission on behalf of the Community.

³ The first financial protocol officially covers the period March 2000–March 2005. However, it entered into force only in April 2003, due to delays in the ratification procedure. The Cotonou Agreement specifies that the resources of the first financial protocol will cover the period 2000-2007. This means that the new funds would have to be available at the latest from 1 January 2008.

⁴ European Council Conclusions on the International Conference on Financing for Development, 14 March 2002.

In 2002, total disbursements for Community external aid were €6.3 billion (see Annex 1 – Table 2), of which €4.4 billion came from the EU budget and €1.9 billion from the EDF.⁵ Out of the €4.4 billion from the budget, around €650-700m per year benefits the ACP. The budget lines support activities in areas such as humanitarian aid, human rights, food aid or co-financing of NGOs. Co-operation with certain present (South Africa) or new (East Timor) members of the ACP group is also covered by the budget, as are a significant number of international fisheries agreements and assistance through the Rapid Reaction Mechanism.

Today, the Community is a donor operating in almost all developing countries in the world, but with two different systems. Aid in non-ACP developing countries is managed according to general budget regulations exclusively, whereas aid to ACP countries is managed according to general budget regulations, on the one hand, and the Cotonou Agreement/EDF regulations, on the other.

On entry into force of the Cotonou Agreement on 1 April 2003⁶, the following resources were available for co-operation with ACP countries and OCTs:

- Under the 6th, 7th and 8th EDFs, a total of €32.8 billion (including transfers from preceding EDFs), of which €30.2 billion was committed and €21.8 billion disbursed. €2.6 billion was thus still available for new commitments and €11 billion for disbursements.
- Under the 9th EDF: €12.5 to €13.5 billion for ACP countries (depending on the decision of the Member States on the availability of a “conditional one billion”), €175 million for OCTs and €125 million for implementation costs incurred by the Commission. A total amount of €12.8 to €13.8 billion is thus available under the 9th EDF.

Thus, more than €15 billion were available for new commitments for the period 2003-2007 and more than €23 billion for disbursements.

The graph in Annex 1- Table 3 shows the 1989-2002 trend in commitment decisions and in payments from the EDF. Commitments were on average more than €3 billion per year during the first three years following the entry into force of the 8th EDF (1998), going down in 2001 and 2002, which is a normal phenomenon in the EDF system, given its five-year financial protocols.

It is, however, important to focus on payments, which show the effective delivery of resources and which are the reference in the ODA data produced by the OECD-DAC (Development Assistance Committee). An analysis of the data in Annex 1- Table 3 shows that the Commission's reform of the management of external assistance since 2000 has started to improve delivery of EDF resources. While the average level of disbursements oscillated around the level of €1.5 billion per year over the period 1996-2000, since 2001 an average level of €2 billion per year has been reached. Despite these improvements, disbursements effectively achieved have remained short of expectations and their level is still far from the Community objectives of committing and disbursing €3.0 to €3.5 billion per year under the EDF.

⁵ The bulk of the EDF is used for ACP countries. A small part, approximately €20-30 million per year, is used for Overseas Countries and Territories.

⁶ OJ L 317 of 15.12.2000, p. 3 and OJ L 83 of 1.4.2003, p. 69.

2.3. EU Co-operation: Budget versus EDF

The EDF, being set up as a fund, has a number of significant features that distinguish it from the Budget.

Once an overall amount for a five-year EDF allocation has been agreed between the EU Member States and between them and the ACP countries, it is contractually determined between the EU-MS in the “Internal Agreement”⁷ and between the EU-MS and the ACP countries in the Financial Protocol⁸ annexed to the Cotonou Agreement. This protocol needs to be signed and ratified by all Member States and two thirds of the ACP countries, which normally takes several years. The amount is available to ACP countries only after ratification. Once available, it becomes a spending objective, which means that uncommitted and non-disbursed balances remain in the Fund until they are fully used. For this reason, there are still old balances from as far back as the 6th EDF, which have ultimately been transferred to the 9th EDF.

The EU budget, in contrast, obeys the annuality rule. Annuality is common practice for government budgets. Spending authorisations are valid for a year. If not committed during the year, authorised appropriations lapse at the end of the year. However, annuality of the authorisations by the budget authority representing the taxpayers is complemented by other arrangements which allow for the multi-annual dimension needed for sound public finance programming. The multi-annual dimension in the EU framework essentially consists of a financial framework generally agreed for 5 to 7 years and financial reference amounts included in programme regulations. In the case of regulations co-decided by the EP and the EU Council – which will be the applicable model after budgetisation – the latter provide a solid guide for the Commission and the budget authority, which have undertaken not to depart, in the annual budget process, from such multi-annual amounts save under very restrictive circumstances.

The Fund approach leads typically to cyclical ups and downs in the overall commitment and disbursement pattern. It provides the ACP countries collectively, and also individual countries after notification of an allocation, with a certain “flexibility over time”, meaning that commitments and disbursements can be either front-loaded or deferred without immediate risk of losing the amount promised.

The budget model, on the other hand, allows similar flexibility provided the appropriations not used for countries with absorption difficulties in a particular year can be used for countries, regions or global initiatives for which financing can be brought forward. For a programme covering a very large number of countries – which is the case for the ACP region - it is highly unlikely that such flexibility would not work. The indicative allocations to countries under multi-annual strategies are obviously not affected by this flexibility within a given budget year, unless a country cannot absorb allocated appropriations consistently over an extended period.

The contractual nature of the Fund and the certainty of the overall allocation have often been seen as advantages in comparison to the Budget. Experience with the Fund since its inception shows however that the actual aid delivery as measured by disbursements has not reflected the level of secured allocations. This has been conducive to building up uncommitted and non-disbursed balances for which the Member States carry forward a legal obligation to contribute. The reasons for this include the lack of absorption capacity and the lack of flexibility in the EDF system itself. Moreover, the spending objective secured by allocations has not provided an incentive for swift implementation.

⁷ OJ L 317 of 15.12.2000, p. 355.

⁸ See footnote 6.

As a consequence of the fact that several EDFs overlap in their implementation and as closures of programmes and projects lead to frequent de-commitment of resources which remain within the various EDFs, the Fund approach requires regular reallocation decisions. The amounts available for re-allocations and re-commitments are constantly changing, which makes neither for efficient management nor clarity on the amounts available. In certain cases, notably in respect of unspent balances and unallocated resources of old EDFs, the creation of new allocations is subject to approval by the ACP-EC Council of Ministers. The procedure, which includes a Commission decision, approval by COREPER, adoption by the EU Council of Ministers, a debate in the ACP-EU Development Finance Co-operation Committee and adoption by the ACP-EU Council of Ministers, takes normally no less than six months.

Finally, the Cotonou Agreement stipulates for the EDF a specific type of co-management by the Commission and the ACP countries. Ownership and co-management are also important features of budgetised co-operation. Therefore, country programmes are always prepared in close co-operation with the authorities of the beneficiary states. And as regards implementation, the Financial Regulation applicable to the general budget includes the model of decentralised implementation by the beneficiary third country, provided its financial management system adheres to a number of criteria related to sound financial management. EC aid programmes follow those rules in all other regions of the world without major difficulties. For one ACP country, i.e. South Africa, co-operation is already de facto budgetised as it benefits from annual budget appropriations under a specific Regulation, which also determines the total amount for a multi-annual timeframe (currently 2000 to 2006).

2.4. Supporting the reform agenda of the Commission

Budgetisation of the EDF is also in line with the objectives of reform of the management of external assistance, launched by the Commission on 16 May 2000. In aiming to improve the speed and quality of aid delivery, major emphasis was put on strengthening the programming of aid, creating the EuropeAid Co-operation Office, devolving project management responsibilities to the Commission's delegations and producing a package of measures to improve financial management. Reform of the external relations sector was of course part of the wider internal Commission reform process, an important part of which was the new Financial Regulation applicable as of 2003.

As regards the ACP countries specifically, the devolution process should be completed by mid-2004. Devolution has proven to be more difficult to finance in the case of the ACP countries than for other regions financed through the budget. The latter benefit from programme appropriations authorised by the budgetary authorities for technical assistance and administrative support expenditures. Such flexible budgetary response to support implementation cannot be made in the context of the EDF. Indeed, administrative funds are determined every five years in the "Internal Agreement", and any changes would require ratification by all Member States. Currently, those funds are insufficient to support the reform. The Commission therefore had to launch the devolution operation in ACP delegations without having the formal assurance of the corresponding financial resources required for 2006-2007. It is hoped that the ACP partners will provide that assurance as soon as the question can be formally addressed, i.e. by late 2004. The amount earmarked for administrative support expenditure in the Internal Agreement for the 9th EDF is equivalent to barely 1% of the operational budget whereas external aid within the budget can rely on 3%.

3. THE POLITICAL DESIRABILITY OF CHANGE: OPPORTUNITIES OFFERED BY BUDGETISATION

3.1. Integrating the ACP into EU external relations - a move towards normality

A series of arguments were used in the past to plead in favour of maintaining ACP expenditure in a particular fund outside the budget, with ad hoc financing keys and with an own set of rules. They have progressively lost relevance in the present external political and co-operation framework.

The first EDF goes back to 1958. At that time, the international context and status of EU integration were completely different. The then EEC (European Economic Community) had no external and security policy, had no system of own resources, and Member States still maintained institutional links with many of the countries concerned. The EDF was set up to respond to the challenges of that time. It did so very well for many years, but today's context is substantially different.

The ACP group of countries has enlarged and developed. So has the EU. Development policy has been defined at EU level and partnership agreements have been signed over the years with almost all regions and countries in the world: the Mediterranean, Latin America, Asia, etc. These agreements, like the Cotonou Agreement, broach a range of subjects of common interest: political dialogue, trade arrangements, democracy objectives, etc. They are complemented by a complex institutional framework at international level where important decisions having an impact on the ACP group are taken: the WTO, the G-8, the UN, etc. Today, the European Union has reached a level of integration and assumes global responsibilities which involve collective relations with all regions of the world, independent of historical links with individual Member States.

Financing outside the budget traces its origin to the period before the introduction of the own resources system. But even after its introduction in 1973, Member States decided to continue the EDF system in which they had to negotiate their contributions (the "financing keys") at regular intervals. Such a system initially permitted rather generous increases in the overall envelopes from one EDF to the next, as some Member States took a particular interest in the ACP region and were ready to translate that particular interest into a larger funding effort at Community level. However, recently the increases in EDF funding have levelled off (see Annex 1 – Table 3) and negotiations on the financing of the last EDFs have proven to be difficult.

For the successor to the 9th EDF, which will involve at least 25 Member States with the majority of the new Member States in the lower range of EU-GNI per capita, negotiations are unlikely to become any easier. A perpetuation of negotiated financing keys for funding EU co-operation with a specific region of the world - external relations of the Union *à la carte* - runs counter to the spirit of the European integration process.

Budgetisation of the EDF, on the other hand, means that it will be financed by the general system of own resources, which serves all budget expenditure, be it for internal or external programmes. Financing will have gained independence from voluntary, negotiated contributions under an ad hoc system and therefore provide better prospects for continuity. For the Member States, it will mean that financial co-operation with ACP countries will really be at EU level, reflecting obligations as part of EU membership without further manifestation of initial preferential interests and links. This will in turn help the new Member States to subscribe to the funding of EU-ACP development aid from 2007/2008 onwards.

3.2. Countering the risk of political marginalisation of the ACP

The Lomé Conventions and now the Cotonou Agreement have established special relations between the European Union and the ACP. In the same vein, separate financing of co-operation from a dedicated Fund has been seen as a privileged position of the ACP countries. This was indeed the case as long as co-operation programmes with the ACP were dominating European external aid. With the expansion of the Union's external relations, the conclusion of co-operation agreements with many other regions and the increase in external aid under the Budget, separate funding is no longer a privilege, rather the opposite: a Fund based on voluntary contributions and determined as a result of national viewpoints. In the new and dynamic context of the European Union, ACP countries run the risk of being left on the sidelines because of the particularity of the EDF system: a combination of intergovernmental and EU institutional elements rather than a full component of the comprehensive EU system.

Being at the heart of democratic decision-making, the annual readings on the Budget in both the Council and Parliament have become the main forums for debate on the substance of development policy, the political priorities of the Union and their resource implications. Similarly, the medium-term Financial Perspectives determine the resource implications of the political vision for Europe. Not being part of the budget, co-operation with the ACP countries is notoriously excluded from one of the most important political decision-making processes of the Union. Instead, the Member States debate and decide on resources among themselves without the involvement of Parliament once every five years. The already significant risk that relations with ACP countries will be marginalised in comparison with other economically more advanced regions of the world is exacerbated by its lack of visibility in the political arenas of the Union. Budgetisation of the EDF will bring the ACP fully into the political process of the Union and put the relationship with them on an equal footing with other regions. The influence of the ACP-EU Joint Parliamentary Assembly will be enhanced through its members in the European Parliament.

3.3. Stronger legitimacy for an effective EU aid policy

An effective and credible EU development effort towards the Millennium Development Goals (MDG) needs a coherent political decision-making process. Neither informed political and managerial choices nor spending plans can be made adequately when budgets are fragmented over separate sources of funding with different decision-making structures and time schedules. A basic requirement for overall aid effectiveness is to provide political and economic decision-makers with the means by which informed and comprehensive choices can be made. The budget authority and citizens would also obtain, after budgetisation, a global, more accurate picture of EU external actions and of EU development policy, based on a coherent and comparable presentation of budgets. Decision-making is likely to become more consistent, as it will take place in a unified political process rather than a divided one. The overall commitment to poverty reduction will be easier to pursue and also to trace in a coherent budgetary frame. In technical terms, the principles of budgetary unity and universality would be complied with.

Not being part of the Budget, the EDF is currently not subject to authorisation by the European Parliament. Yet the EDF covers an important policy domain of the EU, for which the Treaty explicitly specifies the co-decision procedure – an obvious contradiction. Because of its political importance, as well as of its financial scale, the EDF should be subject to comprehensive parliamentary involvement just like all other EU expenditure on external policy. Integration of the EDF into the general budget would eliminate this anomaly. The legitimacy of co-operation with the ACP partners will be strengthened by the European Parliament being able to exert its full governance from the authorisation of the expenditure up to the discharge. Overall, external

aid at the level of the Union would gain in transparency towards the European citizen and the taxpayer.

Development co-operation under Cotonou will only be secured as a true EU policy instrument in a budgetised context, without negotiation of financing contributions detached from the political processes of the Union. Development aid to the ACP countries must be part of the normal responsibility of being an EU Member State for it to have the legitimacy of being an expression of the collective responsibility of the EU.

3.4. Further effectiveness gains

Over and above mainly political and institutional considerations, the Commission expects incorporation into the budget to provide a framework conducive to further effectiveness gains.

Budgetisation will subject ACP expenditure to the annuality principle. Appropriations will become part of a yearly assessment and yearly authorisation by the Council and Parliament, which is a powerful incentive for continuous, year-by-year progress with implementation. The pattern of commitments will become more regular. The build-up of unspent funds will be more easily identified and likely to be addressed earlier and more forcefully.

With more flexibility within the ACP group, temporary absorption difficulties in some countries will be more easily compensated by bringing forward financial commitments in others. The overall amount ultimately spent, and the development support effectively provided, can thus more easily reach the potential level established through the multi-annual frame of reference for resource allocation.

Incorporation into the budget will fully subject EDF to those management principles applicable to the general budget. These are more constraining: financing agreements will have to be concluded at the latest during the year following that of the budgetary commitment, and individual contracts implementing such financing agreements will have to be concluded no later than 3 years following the date of the budgetary commitment. Funds not contracted on time will lapse. These principles applicable to the general budget are also present in the financial regulation applicable to the 9th EDF, but in a less stringent way.

Annuity and stricter sunset clauses do not mean that budgetised EU-ACP co-operation would lose its multi-annual nature, its predictability and the protection of its overall funding. Budget programmes also operate within a predictable and multi-annual frame. But predictability does not amount to an unconditional guarantee, as the budget frame includes rules – reinforced since 2003 - which act as an incentive to progress with commitments, contracts and payments and help to avoid excessive gaps between promises/commitments and effective implementation. These stronger incentives will complement efforts which are undertaken by the Commission and ACP countries to strengthen institutional capacity in the delivery of aid.

After incorporation of the EDF into the budget, all major geographical programmes will be part of the budget structure. From a technical point of view, this will make for greater synergy between those programmes centred on a geographical/country approach and those programmes pursuing thematic objectives. It will facilitate the discussion on the optimal relation between the two types of instruments. Co-operation programmes with the ACP have generated a wealth of experience and best practice, which are worth transferring to other co-operation programmes with other developing regions. Separate systems are an obstacle to cross-fertilisation between the various programmes.

Incorporation of the EDF into the budget will facilitate co-operation between regions. The current financial co-operation instruments with Africa are mainly the EDF for Sub-Saharan Africa, the individual programme for South Africa and the MEDA programme for North Africa. This situation creates a particular problem when support for the African Union and its initiatives is sought. A similar difficulty arises with the growing complexity and comprehensiveness of EU relations with Africa. Overcoming the fragmentation of financial instruments available for the external relations of the Union would certainly benefit a more coherent and effective EU-African policy. Without prejudice to the unity of the ACP group, a similar gain in coherence could be brought about for Caribbean countries in relation to Latin America and for the Pacific group in relation to Asia.

Finally, recent experience has shown that the budget can respond faster to new needs and new priorities, including those which are at the very heart of the problems of the ACP region. This is partly because the annual decision-making aspect of the budget process allows more frequent updating. It is also because of the active involvement of the budget authority in the choices. Recent examples are the faster response from the budget side in contributing to global initiatives such as the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) or reproductive health. Also, in certain cases, dealings with ACP countries in a post-crisis situation could be resumed more easily through the budget programmes than through EDF. Flexibility mechanisms are available within the EDF too, but in general their set-up requires longer and more cumbersome procedures.

3.5. Efficiency gains

For the Commission, being an institution with tight restrictions on its human and administrative resources available for aid implementation, efficiency gains are an important aspect of budgetisation. Although difficult to quantify accurately, there is little doubt that the incorporation of all ACP aid into the budget will provide for more efficient, i.e. more cost-effective operations. It will allow a certain amount of duplication to be removed which is currently imposed on the various operators and stakeholders, be they the Commission, Member State delegates, ACP partners, participating NGOs or contractors.

Implementation of external assistance under the EU budget and under the EDF have been harmonised as much as the different concepts and legal frameworks allow. In spite of these efforts, differences still exist in the respective financial regulations for the budget and for the 9th EDF. The Commission must therefore continue to apply two different sets of management procedures with different distributions of responsibilities between the Commission and partner countries and must maintain two quite different accounting systems. When staff is transferred from one type of co-operation to another they need to be retrained. Different co-operation methods are reflected in the organisation structure of the Commission and thus lead, de facto, to insufficient mobility of staff between the regions. Moreover, for decades, both the Commission and the Member States have duplicated their co-ordination efforts.

Incorporation of the EDF into the Budget will give the Community the opportunity to use one set of procedures that applies to all co-operation activities. This would put an end to the current situation where the same ACP countries receive aid from the same administration according to two different mechanisms. It will greatly facilitate devolved management by the ACP Delegations as compared to the current situation where they have to master two sets of procedures.

Not only are different programmes managed according to two different systems, often the same activities are funded by two different sources. Humanitarian aid to the ACP region provided by the Humanitarian Aid office (ECHO) is funded first by the budget and – where such support cannot be financed from the EU budget - ECHO can appeal for EDF funds in line with the provisions of the Cotonou Agreement. The EC contribution to the Global Fund to Fight AIDS, TB and Malaria is currently funded from both the EDF and the budget. Other examples could be added. All these cases imply duplication in financing decisions, legal commitments, payments, etc. With all ACP aid under the budget it will clearly be possible to devise a more efficient response system to humanitarian crises and global challenges affecting both ACP and non-ACP developing countries.

EDF financial protocols need to be ratified (with delays of up to three years) and this has, in certain cases, exacerbated the systemic, irregular trends in the ensuing commitments and payments. By removing the need for ad-hoc negotiations on the financing of the EDF and by moving to annual appropriations, budgetisation of the EDF would provide for a more regular and continuous pattern of implementation and consequently for smoother capacity utilisation in the delegations.

4. CONCERNS RAISED IN CONNECTION WITH BUDGETISATION

4.1. Maintaining the quality of the partnership with ACP countries

EU-ACP relations have developed over the past 45 years into an "acquis" with ownership and partnership as important cornerstones. Will this "acquis" be preserved in the case of budgetisation or is the Fund a necessary element of this "acquis"?

The answer to this is clear: the Fund is a historical, not a substantive element in the privileged relations between the ACP and the EU. The agreement signed in Cotonou is an expression of this partnership. It was designed to give, after 40 years of co-operation, a new impulse to common EU-ACP relations. It was not easy to define a new structure for a genuine partnership which aims to tackle the essential challenges of poverty reduction, conflicts, threats to the environment, as well as the risk of economic and technological marginalisation. The renewed partnership is innovative at different levels: the objectives, the nature of the partnership and the means of attaining the objectives. It will continue to govern ACP-EU relations to the same extent as in the past.

But the instruments of co-operation need renewing: the Cotonou Agreement introduced several new ideas for improving effectiveness and efficiency of the financial mechanisms, such as enhanced review mechanisms, including the mid-term review. Although further improvements could be obtained in a 'fund' system, budgetisation can make a further profound difference whilst at the same time preserving the quality of the relationship. Commitments to individual ACP countries will continue to be made on the basis of programmes prepared and approved with them. In every country, the Government will continue to be closely associated with multi-annual indicative programming, the preparation of annual action plans, and programme and project definition, preparation and implementation issues. The ownership of our partners in co-operation is taken for granted by the Community, and the challenge will remain as it has always been for ACP countries: to exploit to the best of their development needs the opportunities offered to them through EU support and the strong partnership that has been built over the years, which can be seen as a reference for all EU co-operation programmes.

As regards financial management, the general rules applicable for external actions will equally apply. These provisions include the decentralised management mode under which the authorities of the partner countries can be entrusted with a number of financial management competencies provided a number of criteria relating to the quality of the government financial systems are met.

4.2. Maintaining the aid commitment to ACP countries

Will budgetisation challenge the financial commitment of the EU towards the ACP? How would the overall financial volume be guaranteed and will there be a predictable commitment to ACP countries?

An analysis of the history of the EDF has illustrated that the actual delivery of aid to ACP countries has been consistently below commitments, thus leading to an accumulation of significant unspent balances. The guarantees provided by the Fund have largely remained promises. The Member States themselves have recognised this and have made provisions in the Financial Protocol allowing them to set a time limit on new financial commitments against the 9th EDF.

Budgetisation, on the other hand, will mean that EU co-operation with the ACP will be based, like all budgetary programmes, on proper Community legal bases, that is to say, regulations adopted in co-decision by the Council and Parliament. Relevant financial provisions will be incorporated in these legislative acts, laying down the financial contribution for the programme for its entire duration. Predictability will remain, with the regulation providing the multi-annual frame of reference for financial resources and a basis for entering expenditure in the budget each year. The Interinstitutional Agreement between the European Parliament, the Council and the Commission establishes that the annual budget procedure should comply with the multi-annual programmed amount unless new, objective, long-term circumstances arise for which explicit and precise reasons are given, with account being taken of the results obtained from implementing the programme.

As regards the overall multi-annual budget to be entered in the relevant regulation(s) and into the next (post-2006) financial framework, the Commission intends to propose financing which is commensurate with the international commitments the EU has subscribed to. This means that the amounts which it intends to include in the 'budgetisation proposal' will aim as a minimum at maintaining the total level of support to the region currently provided through the EDF and be guided by the general evolution of EU GNI. A consensus will be sought with the ACP partners whilst at the same time meeting the prerogatives of the EU budget authority.

4.3. From special “financing keys” to the general “budget key”

Budgetisation will lead to an increase in the use of own resources. However, this is purely the effect of channelling the respective amounts for co-operation with ACP countries through a different system. Budgetisation as such has no effect on the global amount to be paid by the Member States.

Does budgetisation imply a risk of reaching the own resources ceiling?

During 2000-2002, disbursements under EDF represented on average 0.021% of EU-GNI. Furthermore, an EDF disbursement capacity in line with its commitments capacity for the 9th EDF would have represented on average around 0.031% of GNI in that same period. This level of improved disbursement should as a minimum be targeted after budgetisation.

These amounts should be seen against the own resources ceiling. That ceiling is currently set at 1.24% of GNI, while the level foreseen by the PDB 2004 is at 0.99% of GNI for EU-25. The question of whether or not to modify the existing own resources ceiling as a consequence of budgetisation is to be handled in a different forum, namely the post-2006 financial framework discussions.

The financing keys negotiated by the Member States for their contributions to the EDF differ from the budget keys, be it the marginal budget key (the GNI key) or the average key (all own resources combined). Therefore, the general temptation is to conclude that budgetisation will lead to a certain redistribution of the financial contribution between the Member States and, over and above that, try and calculate this redistribution in terms of winners and losers. This is, however, a static and therefore wrong approach. Budgetisation will not change the contributions to the ongoing funds: existing agreements will have to be served along the terms agreed. And, as regards the keys for future contributions, it is impossible to predict what the outcome would be of any future negotiation with at least 25 participants. Nor can it be taken for granted that the system of financing the EU budget will remain unchanged.

In this context, it is worth noting that the differences between the Member States' EDF contributions and their relative wealth (as reflected by the GDP/GNI keys - see Annex 1 – Table 4) grew between the 6th and the 9th EDFs.

5. AN AMBITIOUS BUT FEASIBLE AGENDA

The coming eighteen months will see significant changes in the European Union, which will provide a rare opportunity for addressing the question of budgetisation. The major milestones are:

First, in October 2003 the Intergovernmental Conference on Treaty Reform will start its work on the basis of the draft Treaty establishing a Constitution for Europe, as adopted by the European Convention. The Convention has recommended the budgetisation of EU-ACP co-operation and the draft Constitution proposes a legal framework ready to host fully budgetised EU-ACP co-operation⁹.

Second, the financial framework for the period after 2006 is under preparation. A first communication from the Commission is expected by the end of 2003. In the case of budgetisation, the financial framework should include all expenditure necessary for ACP/EU co-operation after 2006.

Third, the enlargement process is entering its final phase, with 10 new Member States due to join the EU in 2004. They will immediately accede to the Cotonou Agreement, but they will only participate in its financing after the end of the present financial protocol.

⁹ Working Group VII on External Action, Final report to Members of the Convention (CONV 459/02 of 16.12.2002, point 9. on Development Cooperation Policy): "There was a high degree of support in favour of the integration of the European Development Fund (EDF) into the overall EU budget and thus making it subject to the same procedures applicable to other areas of financial assistance. Such integration must be accompanied by improvements to the effectiveness and poverty focus of EU development programmes in general, and should not reduce the volume of aid directed towards ACP countries". The draft Constitution adopted in July 2003 by the Convention is in line with this recommendation.

The period covered by the 9th EDF comes to an end in 2007. The Commission therefore proposes that, instead of seeking to secure a 10th EDF separately funded by 25 or more Member States, the 2007/2008 budgets should be the start of budgetised ACP financing. Although this seems at first sight remote, it is an ambitious objective as preparatory work in a number of areas will have to start by this year.

The most significant implications and preparations are:

- (1) In terms of Community instruments: (a) the inclusion of full ACP co-operation in the next financial framework for the period after 2006: the Commission is to present its first ideas on this by the end of 2003; (b) the adoption of a multi-annual legal basis for future ACP/EU co-operation in the form of a joint EP/Council regulation with a prime financial reference amount: a proposal should be ready by 2005, after consultation of the ACP States, and a decision should take place by the end of 2006.
- (2) In respect of the provisions governing the ACP-EU partnership: changes are to be made to those technical implementation arrangements in the Cotonou framework which differ from the budget arrangements. These changes relate to provisions in the body of the Cotonou Agreement as well as the annexes, meaning that transitional arrangements will have to be decided by the Joint Council of Ministers while awaiting ratification of the revised texts. The financial protocol (Annex 1 to the Cotonou Agreement) will no longer be needed as future funding will be secured through the financial provisions of a regulation. EU proposals on items to be negotiated will be presented to the ACP by 1 March 2004. The Internal Agreement and the EDF financial regulation will no longer be needed for future spending, as technical implementation arrangements will be established in the new legal basis and the provisions of the general financial texts applicable to the budget will apply.
- (3) As regards existing EDFs, a transitional period will apply. During this period, existing EDFs (6th to 9th) will continue to be financed in accordance with the existing contribution keys rather than through the general own resources system. The Commission will nevertheless seek to ensure that the transition period is kept to a strict minimum so that the full benefits of budgetisation can materialise as soon as is feasible. The Commission will present the relevant proposals by the end of 2003.

An indicative “road map” with more detail is given in Annex 2.

6. CONCLUSIONS: A POLITICAL AND PRACTICAL OPPORTUNITY FOR CHANGE

There are no substantive reasons to maintain the anomaly of a separate fund outside the framework of the budget. The risks of fully integrating ACP co-operation in the EU budget are marginal while the overall implications are clearly positive. The burden of proof should be on those wanting to maintain the present situation of exception rather than on those advocating a situation in line with normality. The risks and the costs of maintaining a separate fund are indeed real.

The main advantages relate to the increased possibility of taking the right decisions at the right time, within a single and truly European framework.

Furthermore, harmonisation of management procedures is expected to bring benefits in terms of effectiveness and efficiency. Budgetisation would even help to extend the strong points of EU-ACP co-operation to other parts of the world.

The qualities of the Cotonou Agreement (ownership, partnership, common objectives) as well as the long-standing intensity of relations between the EU and the ACP region will not be called into question by budgetisation. The ACP has been a privileged partner of the EU since 1958, and it will continue to be high on its agenda in the future.

The time is right to opt for budgetisation given the upcoming deadlines: the Intergovernmental Conference to revise the Treaties, the revision of the Cotonou Agreement and the presentation of proposals for the post-2006 financial framework. The agenda is feasible, even though tight. A substantial legislative programme will have to be launched within the coming months. But it is worth the effort: the EU/ACP partnership with its very special character and its ambitious objectives can only be reinforced if it has at its disposal an up-to-date financial tool which offers better prospects for progress towards the Millennium Development Goals.

The Commission therefore invites the Council and the European Parliament to support the approach proposed in the present communication for budgetisation of EU – ACP/OCT financial co-operation from 2007/2008 onwards.

The first vital deadlines are very close. Therefore, the Commission informs the Council and Parliament that it has to begin preparations for all proposals for which upcoming deadlines are close (the most important of them are shown in the road map) with a view to allow budgetisation to take place.

ANNEXES

Annex 1: Key figures

(1) EU part in net ODA (official development aid) 1985-2002

	Aid disbursements in million of USD				EU ODA in % of total ODA			EC in % of EU ODA	ODA in % of GNI		EU ODA in % of GNI	
	DAC total	EU	EC	MS	EU	EC	MS		DAC total	EU	EC	MS
Av. 1985-86	32.296	14.570	1.704	12.866	45,1	5,3	39,8	11,8	0,33	0,45	0,053	0,397
Av. 1990-91	54.813	29.549	3.343	26.226	53,9	6,1	47,8	11,3	0,31	0,42	0,048	0,372
2000	53.734	25.273	4.912	20.361	47,0	9,1	37,9	19,4	0,22	0,32	0,062	0,258
2001	52.336	26.290	5.961	20.329	50,2	11,4	38,8	22,7	0,22	0,33	0,075	0,255
2002	56.991	29.093	6.502	22.591	51,0	11,4	39,6	22,3	0,23	0,34	0,076	0,264

Source: International Development Statistics OECD-DAC

Note: EU figures refer to Member States contributions, incorporating their share of EDF, EIB and EU budget. EC figures include EDF, EIB and EU budget. ODA includes loans under certain conditions; as a consequence, a number of EIB loans qualify for ODA and are included in the EC total as well as a number of bilateral loans which are included in the Member States total.

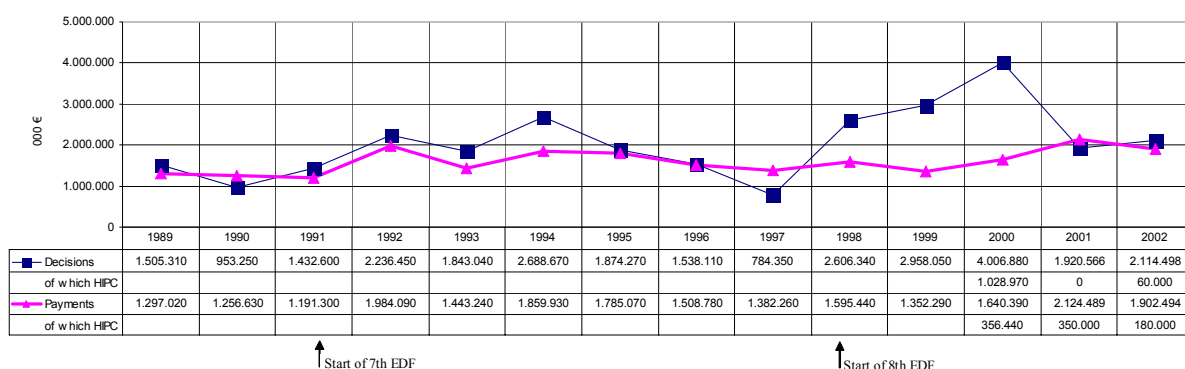
(2) Aid to ACP countries from budget and from EDF compared to total external aid

	in millions €						Composition of Aid to ACP-OCT in %		Part of ACP-aid in total aid
	Budget expenditure			EDF expenditure ACP + OCT	Total ACP-OCT expenditure	Total Budget + EDF expenditure	from budget	from EDF	
	Total H4 budget	for ACP + OCT	for others						
	(1)=(2)+(3)	(2)	(3)	(4)	(5)=(2)+(4)	(6)=(1)+(4)	(7)=(2)/(5)	(8)=(4)/(5)	(9)=(5)/(6)
Commitments									
2001	4.859	699	4.160	1.921	2.620	6.780	26,7	73,3	38,6
2002	5.086	710	4.376	2.144	2.854	7.230	24,9	75,1	39,5
Payments									
2001	4.231	720	3.511	2.124	2.844	6.355	25,3	74,7	44,8
2002	4.424	650	3.774	1.902	2.542	6.326	25,6	74,8	40,2

Source: Commission – DG BUDG + EuropeAid

Note: figures in this table exclude pre-accession aid

(3) EDF Commitments – payments 1989-2002



Notes:

- Commitments: exclude decommitments
- Payments: before recoveries
- HIPC : Heavily Indebted Poor Countries (HIPC) Initiative

Potential capacity (in millions €)		
	Initial allocations	Average / year
6 th EDF	1985-1990 = 7.500	1.500
7 th EDF	1990-1995 = 10.940	2.188
8 th EDF	1995-2000 = 12.840	2.568
9 th EDF	2000-2005 = 13.800	2.760

Effective realisations (in millions €)		
	Average / year	
	Commitments	Payments
1989-1999	1.856	1.512
2000-2002	2.681	1.889

Source: 'Financial Information on the European Development Funds', COM(2003) 353 final – 13.6.2003 and COM(2002) 372 final – 9.7.2002

(4) Financing keys applied to 6th till 9th EDF (initial allocations) and GDP/GNI keys

Member States	6th EDF	6th EDF key	GDP weight in 1985	7th EDF	7th EDF key	8th EDF	8th EDF key	9th EDF	9th EDF key	GNI key general budget 2003
	M€	%	%	M€	%	M€	%	M€	%	%
Austria						340	2,65	366	2,65	2,31
Belgium	297	3,96	3,30	433	3,96	503	3,92	541	3,92	2,95
Denmark	156	2,08	2,40	227	2,08	275	2,14	295	2,14	2,01
Finland						190	1,48	204	1,48	1,50
France	1.768	23,58	21,10	2.666	24,37	3.120	24,30	3.353	24,30	16,39
Germany	1.954	26,06	25,20	2.840	25,96	3.000	23,36	3.224	23,36	22,75
Greece	93	1,24	1,60	134	1,22	160	1,25	173	1,25	1,58
Ireland	41	0,55	0,80	60	0,55	80	0,62	86	0,62	1,19
Italia	944	12,58	14,40	1.418	12,96	1.610	12,54	1.731	12,54	13,83
Luxembourg	14	0,19	0,20	21	0,19	37	0,29	40	0,29	0,23
Netherlands (The)	423	5,64	5,30	609	5,57	670	5,22	720	5,22	4,96
Portugal	66	0,88	1,00	96	0,88	125	0,97	134	0,97	1,36
Spain	500	6,66	6,80	645	5,90	750	5,84	806	5,84	7,46
Sweden						350	2,73	377	2,73	2,69
United Kingdom	1.243	16,58	18,10	1.791	16,37	1.630	12,69	1.751	12,69	18,78
TOTAL	7.500	100,00	100,00	10.940	100,00	12.840	100,00	13.800	100,00	100,00

Note: The 1985 GDP weights are those which were known at that moment and which differ from the weights currently published on 1985. The difference follows from a substantial upward revision of GDP in a large Member state.

Annex 2: Road map: Deadlines for essential legislative steps

To give effect to budgetising the EDF a number of legislative measures have to be taken as well as a number of decisions of political and of financial nature. The present roadmap identifies the main of these measures and decisions as well as the deadlines by which they are bound.

October 2003	Adoption by Commission of present Communication. Followed by discussion with Council and European Parliament.
December 2003	Communication on broad guidelines for the post-2006 financial framework. <i>Should provide for the financial implications of budgetising the EDF under what is now called 'Heading 4' –external actions, on basis of the October Communication.</i>
December 2003	Presentation by Commission to Council/Member States of items to be amended in the Cotonou Agreement. <i>The budgetisation model pursued will require that provisions of Community law replace some provisions of the Cotonou legal framework. The financial protocol, the Internal agreement, the EDF financial regulation and some technical elements in Cotonou relating to implementation will either become redundant or will require amendment. The community Own Resource system will become applicable as well. Transition period foreseen for existing EDFs.</i>
February 2004	Presentation to ACP of EU proposals for possible amendments to the Cotonou Agreement <i>ACP only to decide on changes in Cotonou (Internal Agreement & EDF financial regulations: decision by Member States).</i>
May 2004- Feb. 2005	EU-ACP negotiations on amendments to the Cotonou Agreement Decision by the ACP-EU Council of Ministers on transitional measures pending ratification.
May 2004 - Feb. 2005	Preparation of amendments to the EDF financial regulation and internal Agreement Decision by EU-Council on revised EDF financial regulation and Internal Agreement <i>Eventual revision necessary in light of changes to the Cotonou Agreement and for transition period 2008-2011 (depending on the decision taken with regard to the rules to apply for implementation of existing EDFs after 2007).</i>

September 2005	Commission proposal for EP-Council regulation(s) establishing a co-operation programme with the ACP and OCTs. <i>Future ACP/OCT programmes financed out of the budget require a basic EP/Council regulation (Internal Agreement & EDF financial regulation & technical provisions of Cotonou concerning implementation will no longer be needed after budgetisation).</i>
May 2006	Commission adopts preliminary draft budget for 2007. <i>Includes ACP budget structure.</i>
December 2006	Adoption of basic regulation(s) for ACP/OCT co-operation by EP and Council. <i>Includes operations with South Africa and East Timor.</i>
December 2006	Ratification where necessary by the EU and ACP of changes to the legal bases.
January 2007/2008	Financial operations of a budgetised “EDF” can begin
2008-2011	Transition period for existing EDFs <i>Commitments on EDFs no longer possible. Payments under EDFs to be continued.</i>